Written Statement of Amanda Eversole, President and Chief Executive Officer
Financial Services Forum
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1. Introduction

Chairman Barr, Ranking Member Foster, and members of the Subcommittee, thank you for the opportunity to testify today. My name is Amanda Eversole, and I am the President and CEO of the Financial Services Forum. I'm honored to testify today before this Subcommittee.

The Financial Services Forum represents the eight global systemically important banks (GSIBs) headquartered in the United States. Forum members play an essential role in the U.S. economy, lending to consumers and companies, providing underwriting and other financial services within the capital markets, and safeguarding the assets of individuals and institutions. Forum institutions hold over 55 percent of U.S. banking assets, underwrite over 75 percent of corporate and municipal debt and equity offerings, provide millions of individuals and families with essential banking services, are innovators in advancing new banking technologies, and employ nearly 700,000 people across the country.[1] U.S. GSIBs also play a vital role in advancing the economic competitiveness of American business and the U.S. economy. Companies from the smallest to the largest, most globally active rely on the largest banks to finance their operations, grow through trade, and control the risk of losses that could occur due to fluctuations in currencies, interest rates, commodity prices, and other factors.

As the largest banks, Forum members meet the most stringent set of bank regulatory requirements and undergo the most rigorous supervision from the federal banking agencies. Collectively, the U.S. GSIBs maintain over $1 trillion in Common Equity Tier 1

[1] Data on bank assets are sourced from firm FR Y-9C reports as well as the Federal Reserve Bank of New York's Quarterly Trends in Consolidated Banking Statistics. Data on underwriting is sourced from firm FR Y-15 reports. Data on number of U.S. employees is provided by Forum members.

capital, triple the level in 2009.[2] The firms maintain more than $3 trillion in highly liquid assets, more than triple the level immediately after the financial crisis.[3] GSIBs meet a long list of other significant requirements put in place after the crisis, designed to result in strong and resilient institutions. Additionally, our members are annually assessed for their ability to weather severe economic conditions through stress tests administered by the Federal Reserve.

In recent years, our members have been a strong source of support to our economy during real economic stress events. During the COVID-19 pandemic, our members activated lines of credit, conducted record-setting levels of underwriting to support companies that fund themselves in the capital markets, and made accommodations for individuals and families who lost income suddenly and indefinitely. In the spring of 2023, as a few regional banks failed, the GSIBs remained demonstrably strong by consistently supporting their existing customers, accepting deposits from new customers, and providing billions in deposits to First Republic Bank. The strength and resilience of the largest banks have been cited repeatedly by government officials from both Democratic and Republican administrations responsible for financial policy and bank regulation. As stated by the Federal Reserve when it announced the results of its 2025 stress tests, “large banks are well positioned to weather a severe recession, while staying above minimum capital requirements and continuing to lend to households and businesses."[4]

In today’s hearing, I will discuss the state of the large bank capital framework as well as the need to modernize the prudential framework to learn from the lessons of the past 15 years. I will then discuss how the large bank capital framework needs to evolve so that large banks can effectively support the economy.

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[2] Data on capital is sourced from firm Y-9C reports.
[3] Data on high-quality liquid assets is sourced from firm Y-9C reports and firm liquidity coverage ratio (LCR) disclosures.
[4] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627b.htm

2. <u>Large Banks are Essential to Our Economy</u>

As banks, Forum members support economic growth by performing the core function of the banking system: channeling savings into investment. Forum members currently support over $5 trillion in lending to households, businesses and communities across the country. In particular, this lending includes $855 billion in direct lending to consumers as well as over $100 billion in lending to small businesses.

In addition to direct lending, Forum members also support the borrowing needs of companies, communities and local, state, and federal governments through both the underwriting and holding of debt securities that are issued in our public capital markets. Forum members hold over $1.8 trillion in U.S. Treasury securities that fund everything from our national defense to Medicare. Forum members also hold over $82 billion in municipal securities that are critical to funding local infrastructure such as roads, bridges, transportation, schools, and airports.

Finally, Forum members serve our economy by providing businesses, households, and communities with an array of critical financial services that are needed to participate and thrive in today's economy. Forum members provide over 170 million deposit accounts for families, individuals, and community organizations (e.g., churches, schools, non-profits), and over 10 million accounts for small and medium-sized businesses to manage and navigate an increasingly complex financial world. In addition, Forum members provide households and businesses with a range of savings vehicles and wealth management services to help them plan and invest for the future.

3. <u>Capital, Economic Growth, and Competitiveness</u>

The Forum's ability to support the economy directly depends on the level of required capital and related prudential requirements. As intermediaries that channel savings into investment, all banks fund loans and related financial services using bank deposits and other forms of debt and equity capital. Equity capital is the most expensive form of finance because equity holders absorb all financial losses before debt holders. As a general rule of thumb, the cost of equity capital in the U.S. averages roughly 10 percent per year while the cost of debt or deposits ranges from roughly two to five percent per year. Like any product, the cost of making a loan is simply the sum of the cost of the required inputs. Accordingly, if the cost of equity is 10 percent per year while the cost of bank deposits is 3 percent per year, then requiring banks to maintain, say, 10 percent equity capital, results in a loan funding cost of:

$$10\% \cdot 10\% + 90\% \cdot 3\% = 1\% + 2.7\% = 3.7\%$$

If regulators were to decide that banks should maintain more equity capital, say, 15 percent, then this would raise the funding cost of a loan to:

$$15\% \cdot 10\% + 85\% \cdot 3\% = 1.5\% + 2.6\% = 4.1\%$$

This arithmetic makes clear a simple and basic economic fact: equity capital is not a free resource and demanding a greater amount of equity capital increases the cost of bank lending and other financial services. And while there are countervailing arguments to suggest that changing the mix of debt and equity does not increase funding costs as directly as indicated in the above example, mainstream economic theory and research finds that increased bank capital requirements lead to increased borrowing costs.[5] As an example, a survey of 13 studies conducted between 2010-2018 by academics, central banks and other experts, finds that raising required capital by two percentage points, e.g. from 10 to 12 percent, would reduce economic output by $90 billion per year and raise the interest rate on loans by 0.2 percentage points throughout the economy.[6] The precise impact of raising capital on borrowing costs and the economy varies from study to study with differences in data, time periods and modeling assumptions. And while it is the case that one can hold differing views on the precise impact of raising capital on borrowing costs

[5] Perhaps the best-known countervailing argument is the Modigliani-Miller hypothesis. In the simplest version of this theory, as bank capital rises and leverage declines, equity capital costs decline reflecting reduced leverage. At the same time, and as indicated by Modigliani-Miller, the presence of both tax-advantaged debt and financial distress costs renders the simplest version of the theory inapplicable.

[6] See, Fixing What Ain't Broken: The Real and Hidden Costs of Excessive Bank Capital Regulation, BankNotes Blog, 1/29/2023.

and the economy, mainstream economics does not take issue with the fact that increased capital requirements impose a real cost on the economy.

The impact of capital on borrowing rates and the economy deserves additional mention considering current economic conditions. For the last few years, economists have puzzled over the exceedingly low level of consumer sentiment despite low unemployment and relatively strong economic growth. Indeed, today, consumer sentiment is lower now than it was in 2008 and is near its all-time low since the late 1970s.[7] Recent economic research suggests that the gap between sentiment and standard measures of economic performance such as GDP and unemployment can be explained by high borrowing costs.[8] Importantly, while the level of interest rates do not enter traditional price indexes such as the CPI, interest rates do significantly influence the cost of buying a home, a car, or any other significant purchase that determines the overall level of affordability in our economy. And while the main driver of interest rates are factors beyond bank capital such as monetary policy and economic growth, the link between borrowing costs and bank capital should not be ignored. As higher capital requirements increase bank funding costs and borrowing costs, so too do they contribute to a general lack of affordability that weighs on consumer sentiment and the economy.

Accordingly, while capital is needed to ensure a safe and sound banking sector, there is an economic cost to higher capital requirements that must be considered as regulators manage the inherent trade-off between greater stability and higher costs, reduced lending, and reduced economic growth.

4. Large Bank Capital: Where Do Things Stand and Where Should We Be Headed?

Large bank capital levels are strong and robust. As of the third quarter of 2025, Forum members maintain over $1 trillion in Common Equity Tier 1 (CET1) capital which has more

[7] Consumer sentiment as measured by the University of Michigan registered 53.6 in October 2025. During 2008, consumer sentiment averaged 63.8. Since the monthly sentiment index launched in 1978, consumer sentiment has been below its October 2025 level in 6 out of 564 months.
[8] See, "The Cost of Money is Part of the Cost of Living: New Evidence on the Consumer Sentiment Anomaly", NBER Working Paper 32163, February 2024, Bolhuis, Cramer, Schulz, Summers.

than tripled since 2009.[9] Forum members have steadily raised their capital levels – in both dollar and percentage terms – since the raft of post-crisis capital reforms were introduced. Indeed, as far back as 2019, Federal Reserve Chair Jerome Powell publicly stated that large bank capital levels are "about right."[10] Since that time, both large bank capital levels and requirements have grown. Between the fourth quarter of 2020 and the third quarter of 2025, Forum member bank capital requirements have grown by roughly 25 percent in dollar terms and 9 percent in percentage terms.

The steady increase in required capital can be directly traced to increases in the Federal Reserve's stress capital buffer requirements and GSIB capital surcharge requirements. Over the 2020 to 2025 period, the weighted average stress capital buffer, or SCB, for Forum members has increased from 3.3 percent to 4.0 percent while the weighted average GSIB capital surcharge has increased from 2.7 percent to 3.2 percent. As will be discussed below, these increases are not driven by fundamental increases in risk, rather they are driven by problematic features of the regulatory capital framework that need to be remediated in the near term.

While the strong level of large bank capital maintained by Forum members is a clear signal of our banking system's resilience, unchecked increases in required capital are not an unalloyed good. Continually rising capital requirements exert downforce on our economy's ability to grow, thrive, and compete globally. Today, our collective goal should be to take a clear-eyed view of the existing capital regime, assess what is working and what is not, and make appropriate changes that are informed by data and the clear lessons of the past 15 years to produce a better regulatory system that supports the economy while supporting financial stability.

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[9] Bank capital levels are sourced from the Federal Reserve Y-9C reports.

[10] Jerome Powell, Chair of the Federal Reserve (Feb. 27, 2019): "I think that the overall level of our capital, particularly at the largest firms, is about right." https://www.govinfo.gov/content/pkg/CHRG-116hhrg35694/html/CHRG-116hhrg35694.htm

5. <u>Putting the Lessons of the Past 15 Years into Practice: Large Bank Capital Reform to Unlock Economic Growth</u>

Before describing the most significant areas in need of capital reform, it is helpful to articulate a guiding principle that should inform how the regulatory framework is evaluated. The large bank regulatory framework should be rigorously evaluated on its merits and in a data-driven manner that consciously considers costs and benefits and whether a particular regulation is achieving its stated goal. Capital reform should not be driven by any pre-conceived and arbitrary notions of the "right" level of capital. Nor should any element of the capital framework be viewed as a "residual plug" that can be used so that the overall level of capital is "right." Each element of the capital framework should be rigorously evaluated on its merits – both on a standalone basis and as part of the larger system – and reformed as indicated by an uncompromising and data-driven analysis.

Regulators have already made significant progress in evaluating and reforming the large bank capital framework. Accordingly, it is appropriate to consider progress that has been made to date as well as areas still requiring reform. Below, I briefly outline the progress that has been made on leverage reform via the Supplementary Leverage Ratio and progress on bringing transparency to the stress tests that apply to large banks.

I. *Leverage Reform*

Regulators have recently reformed the enhanced Supplementary Leverage Ratio (eSLR) to ensure that risk-blind leverage requirements do not act as a binding capital constraint. When leverage requirements are binding, banks are disincentivized from robustly engaging in low-risk, low-return activities such as the intermediation of U.S. Treasury securities. The recent action from regulators to improve the calibration of the eSLR is an important step toward modernizing the large bank capital regime and ensuring that risk-based capital requirements are the primary determinant of bank capital.

It is instructive to look at the eSLR issue in greater detail to get a sense for both why eSLR reform was needed and what additional reform may be needed to address the same fundamental issue addressed by eSLR reform. Until recently, the eSLR applied a flat five percent capital charge to every asset on a bank's balance sheet regardless of risk – including zero risk and low-risk bank reserves and U.S. Treasuries. Since the onset of the COVID-19 pandemic in 2020, both the level of bank reserves and the level of outstanding U.S. Treasuries have undergone a seismic shift. Since COVID-19, the level of bank reserves has roughly doubled from $1.6 trillion to $3.0 trillion while the outstanding amount of U.S. Treasuries has increased from roughly $17 trillion to $29 trillion[11]. This massive increase in the level of low-risk, safe assets in the economy has significantly increased the amount of required leverage capital as both reserves and U.S. Treasuries require a flat capital charge of five percent. When the eSLR was introduced in 2015, the level of safe assets was markedly lower and, at that time, policymakers likely would not have contemplated the levels of safe assets that exist today. The unprecedented increase in the supply of safe assets made the eSLR considerably more binding than was ever expected by regulators in 2015.

The lesson provided by the case of the eSLR has two wider ramifications. First, in addition to the eSLR, large banks are also subject to the Tier 1 Leverage Ratio that predates the eSLR. Like the eSLR, the Tier 1 Leverage Ratio applies a flat, four percent, capital charge to bank reserves and U.S. Treasuries. Accordingly, the motivations that led to eSLR reform are also present in the case of the Tier 1 Leverage Ratio, which is or will become the binding leverage requirement for certain firms, particularly those with liability driven balance sheets or those that hold large amounts of low-risk central bank reserves and U.S. Treasuries. Excluding cash reserves and Treasuries from leverage ratios can address the bindingness of Tier 1 Leverage Ratio requirements and therefore complement recent efforts to address the bindingness of the eSLR buffer while also helping to bring down borrowing costs, strengthen market infrastructure, and build capacity in the system. Second, the leverage ratio is not the only regulatory capital requirement that is influenced by the supply of safe assets in the financial system. Importantly, the GSIB Surcharge also mechanically

[11] Board of Governors of the Federal Reserve System (US), Reserves of Depository Institutions: Total [TOTRESNS], retrieved from FRED; US Department of the Treasury. Fiscal Service, Federal Debt Held by the Public [FYGFDPUN], retrieved from FRED.

depends on the nominal size of safe asset supply. Since COVID-19, GSIB Surcharges have risen steadily for reasons that are directly linked to increased bank reserves and U.S. Treasury issuance and are completely unrelated to risk.[12] Quite paradoxically, heightened reserves and U.S. Treasuries have reduced risk in the banking system yet large bank capital requirements have risen as a result of a mechanical and atheoretical link between the supply of safe assets and GSIB Surcharges. Regulators should ensure that the broad lessons that have informed SLR reform are also brought to bear on outstanding policy concerns with the Tier 1 Leverage Ratio and the GSIB Surcharge.

II. *Stress Test Reform*

In addition to eSLR reform, regulators have already begun the process of improving the transparency of the stress tests. Transparency in the stress tests is a critical financial regulatory and public policy issue that has garnered wide attention, including the attention of this committee.[13] Transparency in regulation is a bedrock principle of good government that undergirds our political and regulatory system. Before now, banks were unable to comment on the form of the tests to which they were subject, nor did they have a clear understanding of the models and quantitative methods that were used to determine the results of the stress tests and ultimately their level of required capital. Bringing the transparency of the stress tests in line with that of other prudential regulations with standard public notice and comment requirements will improve the accuracy, validity and legitimacy of the stress tests while supporting a sound financial system.

While regulators have already made an impressive start on reforming the large bank framework, there are additional areas that need significant attention in the near term. Below, I outline two specific prudential initiatives that require significant reform by regulators: Basel III Endgame and the GSIB Surcharge.

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[12] See, The Rising Tide of Safe Assets and Large Bank Capital Requirements: Safe Asset Supply, the COVID Pandemic, and GSIB Surcharges: 2016-2024, Sean Campbell, Emma Tong, September 2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5527632

[13] On June 26, 2024, the House Financial Services Subcommittee on Financial Institutions and Monetary Policy held a hearing “Stress Testing: What’s Inside the Black Box”.

III. *Basel III Endgame*

Basel III capital reform was first implemented in the U.S. in 2013. Basel III represented an extensive, post-crisis capital reform that was implemented over a period of years through several lengthy rulemakings. Basel III "Endgame" (B3E) was to be the final chapter in Basel capital reform and was primarily intended to achieve two goals. First, provide various technical "clean up" changes to the Basel capital framework that were not of first order importance but were consistent with good "housekeeping." Second, and more importantly, to ensure that non-U.S. Basel signatories would achieve capital levels commensurate with the U.S. by limiting the extent to which non-U.S. jurisdictions would be allowed to use internal models in determining their capital requirements.[14] Overall, B3E was intended by global regulators to be a "finishing touch" on Basel capital reform and was never intended to materially raise capital requirements.[15] The significant capital raise had already been achieved through the implementation of Basel III in 2013.

In July of 2023, banking regulators issued a B3E proposal that would have increased capital requirements for the largest U.S. banks by 25 percent. This increase was achieved by deviating significantly from the global B3E agreement in various ways that resulted in capital requirements that were not tied to risk and were punitive by design. The B3E proposal was roundly criticized for its approach by a wide array of stakeholders including public interest groups, members of Congress, and representatives of industries outside the banking sector. A study by Latham and Watkins found that 97 percent of all commenters opposed the proposal.[16]

[14] U.S. banks are largely prohibited from using internal models to set capital requirements due to the so-called "Collins Requirement" of the Dodd-Frank Act. Non-U.S. banks have wide discretion to use internal models in calculating their capital requirements.
[15] In 2017, Mario Draghi, Chairman of the Group of Central Bank Governors and Heads of Supervision who oversaw Basel III, stated "[t]he focus of the exercise was not to increase capital. As a matter of fact, the GHOS almost a year ago endorsed this review by the Basel Committee, provided it wouldn't create a significant capital increase in the aggregate of the banking system." See, https://www.bis.org/bcbs/b3/ghos_20171207_2.htm.
[16] Comments on the Basel III Endgame, Latham and Watkins, February 2, 2024.

Large banks are keen to move ahead and finalize B3E to gain regulatory certainty, which is needed to ensure that banks can plan and manage their businesses and allocate resources to support consumers and businesses throughout the economy. Regulators should expeditiously move ahead with B3E in a manner that is consistent with the global regulatory agreement and does not seek to artificially raise capital requirements for large banks. Moreover, the implementation of B3E should be based on a data-based analysis that is calibrated for the needs of large U.S. banks and the U.S. economy.

IV. *GSIB Surcharge*

Like B3E, the GSIB surcharge is a bank regulatory requirement that emerged from an international regulatory standard that was then implemented in the U.S. in a manner that was out of step with the international agreement and has resulted in punitive capital requirements that are mis-aligned with risk. The GSIB Surcharge has been a part of the U.S. bank capital framework for U.S. GSIBs, since 2015. From the outset, the U.S. version of the GSIB Surcharge (so-called Method 2) was more stringent than the international version (so-called Method 1). Today, the average GSIB Surcharge faced by Forum members is 3.2 percent and results in roughly $242 billion in required capital. If Forum members were subject to the international standard GSIB Surcharge (Method 1), the requirement would be 1.8 percent and would result in roughly $139 billion in required capital. Accordingly, the increased stringency of the U.S. (Method 2) GSIB Surcharge results in Forum members maintaining an additional $100 billion in required capital.

Also, in addition to a more stringent GSIB Surcharge, its impact only grows over time due to the "fixed coefficients" approach taken by the Federal Reserve back in 2015. Accordingly, the gap between the GSIB Surcharge applied to Forum members and the GSIB Surcharge applied to their foreign competitors has grown steadily over time. Importantly, the large-scale growth in the supply of safe assets that followed the COVID-19 pandemic has only increased the pace of divergence between U.S. and foreign GSIB Surcharge levels. As discussed in the context of the SLR, these recent increases in GSIB Surcharges are primarily the result of poor regulatory design and the massive growth in low-risk, safe assets which, perversely, results in higher bank capital requirements even though the increase in low-risk assets reduces the riskiness of the banking sector.

Regulators have been aware of this seemingly technical issue with the GSIB Surcharge since 2015. At the time that the Federal Reserve finalized the GSIB Surcharge, they said: "The Board acknowledges that over time, a bank holding company's Method 2 score may be affected by economic growth that does not represent an increase in systemic risk. To ensure changes in economic growth do not unduly affect firms' systemic risk scores, the Board will periodically review the coefficients and make adjustments as appropriate."[17]

More than 10 years after the finalization of the GSIB Surcharge, no such "periodic" review has taken place, and the events of the past several years have made the problems that were acknowledged a decade ago even more pressing. The Federal Reserve, the sole regulator with the unilateral authority to change the GSIB Surcharge, should move quickly to address these pressing problems to ensure that large U.S. banks are not put at an automatic competitive disadvantage relative to their foreign competitors that results in higher costs and reduced credit supply for U.S. households, businesses and communities. Finally, any solution to right-size the GSIB Surcharge should be long-lasting and durable. We have already seen what happens when temporary measures are offered that need to be "periodically reviewed." It is unlikely that the current U.S. GSIB Surcharge would be intentionally designed as it stands today. I appreciate the Federal Reserve's commitment to revisit its approach and devise a durable and long-lasting fix for the GSIB Surcharge to help ensure that large U.S. banks can serve the economy consistently over the long-term.

6. Large Bank Capital, the Competitive Landscape, and Financial Stability

I. *International Disparities in Capital Regulation*

Large bank capital requirements applied in the U.S. are significantly more stringent than those applied abroad. As of the fourth quarter of 2024, Forum members are subject to an

[17] Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, Federal Reserve System 12 CFR Parts 208 and 217

overall risk-based capital requirement of 11.7 percent while similarly situated EU banks are subject to a requirement of 9.9 percent[18].

U.S. bank capital requirements – both their overall level and relation to standards applied in foreign countries – are a primary determinant of the competitive stance of both the banking system and the overall U.S. economy. Increasingly, the banking system is focused on domestic credit extension. According to data from the Bank for International Settlements, in 2012, roughly 37 percent of global bank assets were comprised of cross-border claims while only 30 percent of global bank assets were comprised of cross-border claims in 2024.[19]

These data have two important implications for how globally divergent capital requirements degrade the competitiveness of the U.S. economy. First, most bank credit to U.S. businesses is extended by domestic banks. Stringent capital requirements for U.S. banks that deviate from global capital standards raise borrowing costs for U.S. businesses who obtain a significant majority of bank credit from domestic banks. As these U.S. companies compete globally, they face a built-in disadvantage relative to foreign competitors who can borrow on more favorable terms due to the more favorable capital requirements applied in foreign jurisdictions. Second, large U.S. banks that compete globally are handicapped by higher U.S. capital requirements that limit their ability to compete for foreign business against their foreign competitors. Accordingly, unnecessarily stringent U.S. capital requirements that deviate from global standards reduce the ability of U.S. financial and non-financial businesses to compete on the global stage.

Since at least the financial crisis, U.S. regulators have regularly negotiated international prudential standards and then applied a more stringent version of these requirements at home. This trend is both troubling and paradoxical because the establishment of international capital standards was intended to ensure competitive equality across major banking jurisdictions. The reality of the past 15 years has been exactly the opposite:

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[18] ECB 2024 Supervisory Review and Evaluation Process (SREP)

[19] Data sourced from BIS locational banking statistics.

international capital standards have consistently resulted in an ever-widening rift between U.S. and non-U.S. capital requirements.

Some have downplayed this trend by noting that large U.S. banks are still highly competitive and successful in international markets. This argument is an all-too-common trope that is undeserving of serious consideration. Large U.S. banks are among the most successful financial institutions in the world. The U.S. regulatory regime should not be designed by U.S. regulators to limit their success. Moreover, U.S. regulators should not base their assessment of the U.S. regulatory regime on their private assessment of whether U.S. banks are successful "enough." A competitive marketplace should ultimately determine the global success of the U.S. banking system.

II. *Disparities in Capital Regulation with Non-Banks*

Large bank capital requirements are also increasingly creating competitive inequities with non-banks. Since the financial crisis, non-banks have gained significant market share relative to the banking sector. According to data from the Financial Stability Board, in 2023 non-banks owned or controlled 49 percent of global financial assets, up from 43 percent in 2008.[20] While some of this trend reflects changing technology and a healthy broadening of the financial system, a measurable amount of this shift can be attributed to tighter bank capital regulation.

A few clear and compelling examples where non-banks have leveraged their regulatory advantage relative to banks are in the mortgage and private credit spaces. Mortgage underwriting and servicing underwent significant scrutiny following the financial crisis and the resulting changes to bank capital regulation significantly reduced the economic viability of bank financed mortgage activity. According to data from the Federal Reserve Bank of Kansas City, in 2008, non-banks originated roughly 20 percent of conforming home mortgages. In 2023, the non-bank share had grown to roughly 60 percent.[21] Over the same

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[20] Global Monitoring Report on Non-Bank Financial Intermediation 2024, Financial Stability Board.
[21] Interest Rates and Non-Bank Market share in the U.S. Mortgage Market, Federal Reserve Bank of Kansas City Economic Review, Voil. 110, No.1.

period, capital requirements for mortgages and mortgage servicing became increasingly stringent relative to the requirements faced by non-banks.

The case of private credit, essentially non-bank corporate lending, is a more recent phenomena but shows many of the signs that were present in the mortgage market 15 years ago. Non-banks are gaining a significant presence in corporate lending. According to data from the Federal Reserve Bank of Boston, private credit has grown ten-fold, from roughly $50 billion to $1 trillion, since 2020[22]. Again, this has all occurred over a period during which bank capital requirements have been raised and, perhaps importantly, capital requirements for corporate lending have increased substantially.[23]

These trends are, to a significant degree, driven by differential trends in bank versus non-bank regulation. Post-crisis bank regulations have tightened considerably. Bank regulations for capital, liquidity, resolution, and a host of other areas have uniformly increased. Non-bank regulation, especially as it relates to prudential regulation, is still in its infancy due, in large part, to a lack of clear regulatory authority at the Federal level. These trends are worth further scrutiny for two key reasons. First, as a general principle, capital requirements for the same activity and the same risk should be the same regardless of the vehicle that engages in the activity. Ever increasing bank capital requirements that are not rationalized across the financial system risks weakening the ability of our economy to channel savings into investment via the banking system. Second, rapid growth outside the highly regulated banking sector raises clear financial stability risks that regulators are charged with overseeing and managing.

Today, we find ourselves in a situation in which the capital framework for the largest U.S. banks has become significantly more stringent than the capital framework for non-banks. At the same time, we have witnessed, and continue to witness, a steady migration of activities away from large banks and toward non-banks. Whether we are considering

[22] Could the Growth of Private Credit Pose a Risk to Financial System Stability? Federal Reserve Bank of Boston, May 21, 2025.
[23] As an example, Pre-Basel III an A-rated corporate received a risk weight of 50 percent. Under Basel III requirements, an A-rated corporate receives a risk-weight of 100 percent.

mortgage servicing and underwriting, corporate lending, or financial innovation in the digital asset arena, activity is steadily flowing toward less stringently regulated players. While it is always impossible to predict the next crisis, this trend raises important financial stability concerns that regulators should actively consider as they calibrate large bank capital requirements.

7. Conclusion

In 2008, the U.S. economy suffered a deep financial crisis. In its wake, regulators began a lengthy process of significantly overhauling bank capital regulation. Fifteen years on, much of that framework has yet to be critically examined in light of our lived experience and the significant changes to the economy and the financial system that have occurred – especially since the onset of the COVID-19 pandemic.

Regulators have begun to make important progress on reforming the large bank capital regime. The initial steps that regulators have taken on leverage capital and stress testing represent critical progress that is already making an important difference. We applaud these efforts and look forward to further progress by bank regulators to modernize the large bank capital framework.

Specifically, regulators must finish the work to: 1) improve the transparency of the stress testing regime, 2) implement Basel 3 Endgame in a manner that improves rather than worsens competitive equity with our international competitors, 3) address the longstanding problems with the GSIB Capital Surcharge that creates further competitive inequities while limiting the ability of Forum members to support our domestic economy, and 4) continue adjusting leverage requirements, including the Tier 1 Leverage Ratio, so that they serve as a capital backstop for all banking organizations. These steps, if implemented faithfully and expediently, will serve to ensure that large bank capital requirements promote a strong and competitive economy, and a safe and sound financial system.